

QUALITY OF EARNINGS REPORT

Quality of earnings: Delta Fastener

Prepared for Harborline Community Credit Union (sample), the lender, in connection with the proposed acquisition of Delta Fastener by Riverbend Supply, financed with an SBA 7(a) loan. Report date 10/30/2026.

Prepared by Maria Santos; reviewed and signed off by Philip A. Baratelli. Baratelli Transaction Advisory, LLC is independent of the buyer, the seller and Delta Fastener: neither it nor its affiliate Baratelli CPA & Accounting, PLLC prepares or maintains their books, returns or statements, neither has a financial interest in them, and the fee does not depend on the transaction closing.

Summary

\$	FY2024	FY2025	TTM 09/30/2026
Revenue	3,900,000	4,100,000	4,260,000
EBITDA, as reported	445,000	505,000	529,000
Adjusted EBITDA, as presented by the seller	568,000	640,000	668,000
Diligence adjustments (net)	(68,000)	(75,000)	(77,000)
QoE adjusted EBITDA	500,000	565,000	591,000

Key findings

- ! FY2025: QoE adjusted EBITDA \$565,000 against \$640,000 presented by the seller, a reduction of \$75,000 (11.7%).
- i 2 seller adjustments not accepted: IT consulting, presented as one-time; Owner's travel and meals.
- + Proof of cash FY2024, receipts: deposits net of transfers and non-revenue items \$3,900,300 against expected receipts \$3,885,000, 0.4% over.
- + Proof of cash FY2024, disbursements: withdrawals net of transfers, distributions and capital spending \$3,460,300 against expected disbursements \$3,457,000, 0.1% over.
- + Proof of cash FY2025, receipts: deposits net of transfers and non-revenue items \$4,069,700 against expected receipts \$4,070,000, 0.0% under.
- + Proof of cash FY2025, disbursements: withdrawals net of transfers, distributions and capital spending \$3,587,100 against expected disbursements \$3,590,000, 0.1% under.
- + Proof of cash TTM 09/30/2026, receipts: deposits net of transfers and non-revenue items \$4,194,100 against expected receipts \$4,230,000, 0.8% under.
- + Proof of cash TTM 09/30/2026, disbursements: withdrawals net of transfers, distributions and capital spending \$3,739,100 against expected disbursements \$3,733,000, 0.2% over.
- ! Customer concentration FY2025: largest customer 14.4%, top five 45%, top ten 59%; 2 customers above 10%.
- i 1 customer with \$140,000 of FY2024 sales bought nothing in FY2025 (3.6% of prior sales).
- i Net working capital averaged \$947,667 across 3 balance sheets.
- i Debt and debt-like items total \$55,000.
- + General ledger tested: no open items, 4 resolved.
- + Revenue Jul 2026 to Sep 2026 is up 5.2% on the same months a year earlier, against growth of 5.2% over the trailing twelve months.
- + Trailing twelve months QoE adjusted EBITDA \$591,000 against \$565,000 for FY2025.

Conclusion

Delta's earnings are supported by its bank deposits and disbursements in every period, and eight of its nine largest customers bought in both years. The seller's consulting and travel add-backs are recurring costs of running the business and were not accepted; owner pay above the market rate for a general manager was accepted. Coverage should be measured on QoE adjusted EBITDA of \$565,000 for fiscal 2025.

SBA SOP 50 10 8.1

- i Required: SBA change-of-ownership loan with a purchase price of \$3,150,000, at or above \$3 million.
- + Ordered by and prepared for Harborline Community Credit Union (sample), the lender.
- + Independent: no relationship with the buyer, seller or target (independence check cleared).
- + Proof of cash for the trailing twelve months (TTM 09/30/2026), receipts and disbursements.
- + Proof of cash for FY2024, receipts and disbursements.
- + Proof of cash for FY2025, receipts and disbursements.
- ! Carry the QoE earnings into the spreads so coverage uses them, as SBA requires.
- + Reviewed and signed off by Philip A. Baratelli.

Scope and procedures

Periods: FY2024, FY2025, TTM 09/30/2026. Information examined: general ledger detail; trial balances, each period; federal tax returns; IRS transcripts; bank statements, all accounts; payroll registers; receivables and payables aging; sales by customer; leases and related-party agreements; management interviews.

Procedures: reported earnings were reconciled to the financial statements and tax returns; each adjustment proposed by the seller was tested against supporting documents and the general ledger and accepted, adjusted or not accepted; diligence adjustments were identified; deposits from the bank statements were proved against reported revenue for each period; revenue was analyzed by customer; net working capital and debt and debt-like items were measured from the balance sheets.

This report was prepared for Harborline Community Credit Union (sample)'s credit decision. It is a consulting report under the AICPA's Statement on Standards for Consulting Services, not an audit, review or compilation, and it does not express an opinion or any other form of assurance on the financial statements. It relies on information provided by management, confirmed in a signed representation letter. No one else may rely on it without our written consent.

EBITDA bridge

\$	FY2024	FY2025	TTM 09/30/2026
Net income, as reported	395,000	457,000	482,000
Interest	0	0	0
Income taxes	0	0	0
Depreciation and amortization	50,000	48,000	47,000
EBITDA, as reported	445,000	505,000	529,000
Owner compensation above market (accepted)	55,000	60,000	62,000
IT consulting, presented as one-time (rejected)	0	0	0
Owner's travel and meals (rejected)	0	0	0
Related-party rent, tested (diligence)	0	0	0
QoE adjusted EBITDA	500,000	565,000	591,000

Adjustments

Owner compensation above market - Owner compensation and benefits

\$	FY2024	FY2025	TTM 09/30/2026
As proposed by the seller	55,000	60,000	62,000
QoE (accepted)	55,000	60,000	62,000

Owner paid \$205,000 (2024) and \$210,000 (2025) against \$150,000 market pay for a general manager of a distributor this size (regional salary survey). Supported by W-2s and payroll registers.

IT consulting, presented as one-time - Non-recurring or one-time

\$	FY2024	FY2025	TTM 09/30/2026
As proposed by the seller	40,000	45,000	46,000
QoE (rejected)	0	0	0

Monthly invoices from the same IT firm in all 33 months reviewed, under an annual support contract renewed in January 2026. A recurring cost of operating the business.

Owner's travel and meals - Personal or discretionary

\$	FY2024	FY2025	TTM 09/30/2026
As proposed by the seller	28,000	30,000	31,000
QoE (rejected)	0	0	0

Sample of 25 charges: 21 were supplier and customer visits with business purpose documented; no receipts or business purpose for the remainder. Treated as an operating cost.

Related-party rent, tested - Related-party (rent, salaries, fees)

\$	FY2024	FY2025	TTM 09/30/2026
As proposed by the seller	0	0	0
QoE (identified in diligence)	0	0	0

The warehouse is leased from Delta Properties LLC, owned by Delta's owner, at \$9,500 a month (\$114,000 a year) in every period. A commercial broker's opinion of rent for comparable industrial space nearby is \$9,000 to \$10,000 a month, so the rent is at market. The buyer signs a new ten-year lease at \$9,500 a month at closing. No adjustment.

Proof of cash

\$	FY2024	FY2025	TTM 09/30/2026
Months of bank statements	12	12	12
Deposits	4,020,300	4,189,700	4,269,100
Less transfers and non-revenue receipts	(120,000)	(120,000)	(75,000)
Revenue deposits	3,900,300	4,069,700	4,194,100
Revenue per the books	3,900,000	4,100,000	4,260,000
Less increase in receivables	(15,000)	(30,000)	(30,000)
Expected receipts	3,885,000	4,070,000	4,230,000
Difference, receipts	15,300 (0.4%)	(300) (-0.0%)	(35,900) (-0.8%)
Withdrawals	4,000,300	4,159,700	4,249,100

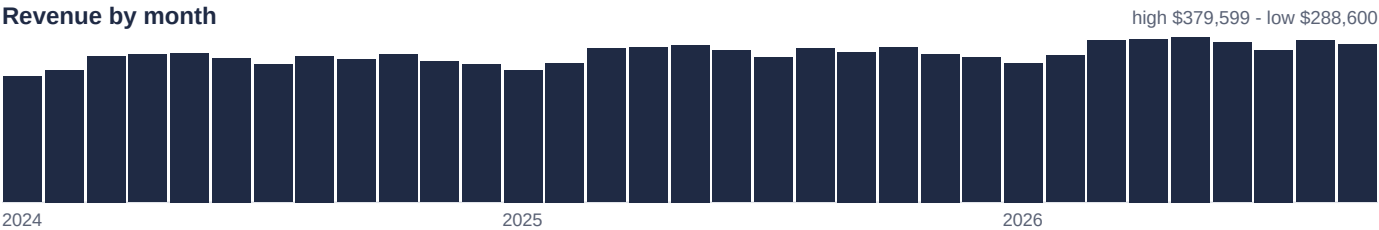
\$	FY2024	FY2025	TTM 09/30/2026
Less transfers out, distributions, loan principal, capital spending	(540,000)	(572,600)	(510,000)
Cost disbursements	3,460,300	3,587,100	3,739,100
Costs per the books, before depreciation	3,455,000	3,595,000	3,731,000
Plus working capital changes	2,000	(5,000)	2,000
Expected disbursements	3,457,000	3,590,000	3,733,000
Difference, disbursements	3,300 (0.1%)	(2,900) (-0.1%)	6,100 (0.2%)

The first year's changes in receivables and working capital use the opening balance sheet from the prior year's return.

Monthly trend

Revenue, gross margin and EBITDA for each month in the general ledger, Jan 2024 to Sep 2026. EBITDA leaves out other income and expense and depreciation; annual entries show in the month booked.

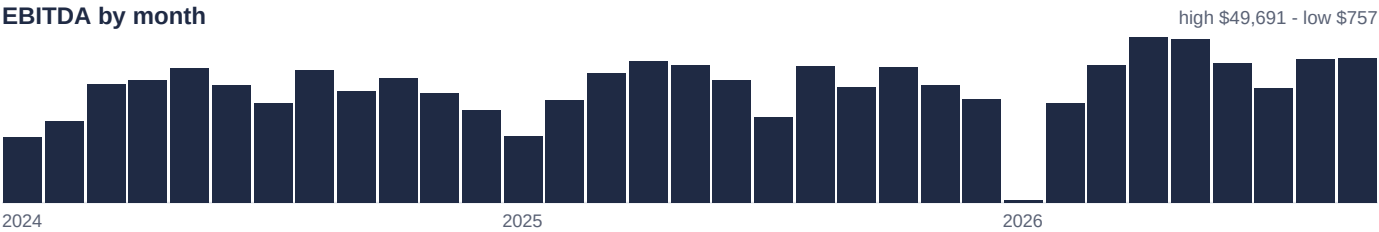
Revenue by month



Gross margin by month



EBITDA by month



+ Revenue Jul 2026 to Sep 2026 is up 5.2% on the same months a year earlier, against growth of 5.2% over the trailing twelve months.

General ledger testing

The general ledger (905 lines, 01/01/2024 to 09/30/2026) was tested for costs presented as one-time that recur, personal charges, year-end cut-off, manual journal entries to the income statement, and wages against Forms W-3.

\$	FY2024	FY2025	TTM 09/30/2026
Revenue in the ledger	3,900,000	4,100,000	4,260,000
Revenue in the spreads	3,900,000	4,100,000	4,260,000
Difference	0	0	0

- + Ponte Vedra Country Club: 33 charges totaling \$28,050 in 6400 Travel and meals (Monthly dues). Confirm with management whether they are personal. Resolved: Corporate membership used for customer entertainment: the event log shows 31 customer outings over the period; the buyer will keep the membership.
- + Tiffany & Co.: 1 charge totaling \$4,200 in 6400 Travel and meals (Gift). Confirm with management whether it is personal. Resolved: Gift to the largest customer for its 25th anniversary; invoice and card on file.
- + Disney Vacation Club: 1 charge totaling \$3,650 in 6400 Travel and meals (Orlando trip). Confirm with management whether it is personal. Resolved: Owner's family trip (\$3,650). Immaterial to earnings (under 1% of EBITDA); noted for the buyer, no adjustment.
- + Journal entry to 4000 Sales on 12/31/2025, \$38,000 ("Accrue December shipments not yet invoiced"), reversed on 01/02/2026. Confirm the goods shipped or the work was done by 12/31/2025. Resolved: Bills of lading for the December 29 to 31 shipments reviewed; the goods shipped in December, and the January invoices replace the accrual.
- i 1 manual journal entry to the income statement in round thousands (largest \$25,000, 6000 Wages and salaries, 12/31/2025). Ask for the support.

YEAR	LEDGER WAGES	FORM W-3	DIFFERENCE
2024	825,000	828,100	3,100 (0.4%)
2025	890,000	872,400	(17,600) (-2.0%)

Revenue by customer

148 customers in FY2025. Largest customer 14.4% of sales; top five 45%; top ten 59%. 1 customer who bought \$140,000 in FY2024 bought nothing in FY2025.

CUSTOMER	FY2024	FY2025	SHARE
Midwest Industrial Supply	520,000	590,000	14.4%
Great Lakes Fabricators	410,000	430,000	10.5%
Harbor Marine Services	300,000	320,000	7.8%
County Road Department	260,000	280,000	6.8%
Northern Tool Distributors	230,000	240,000	5.9%
Allied Construction	210,000	215,000	5.2%
Prairie Ag Equipment	190,000	200,000	4.9%
Summit Electric	150,000	160,000	3.9%
Lakeshore Builders	140,000	0	0.0%
All other customers		1,665,000	40.6%

Net working capital

\$	FY2024	FY2025	TTM 09/30/2026
Accounts receivable	590,000	620,000	640,000
Inventory	680,000	700,000	715,000
Other current assets	20,000	20,000	20,000
Accounts payable	(310,000)	(330,000)	(345,000)
Other current liabilities	(55,000)	(60,000)	(62,000)
Net working capital	925,000	950,000	968,000

Average \$947,667; peg \$947,667 (22.2% of revenue).

Debt and debt-like items

ITEM	KIND	AMOUNT
Accrued vacation and bonuses (Earned, unpaid at the last balance sheet)	Debt-like	18,000
Customer deposits and deferred revenue (Deposits on special orders)	Debt-like	25,000
Deferred maintenance and capital spending (Two forklifts due for overhaul)	Debt-like	12,000
Total		55,000

Review and sign-off

This report, its workbook and their support were reviewed item by item (21 items: independence and the engagement, each adjustment, each ledger finding, the proof of cash for each period, the analysis, the bridge and the conclusion) and approved by Philip A. Baratelli, on 10/29/2026. 1 reviewer query was raised and resolved before sign-off. Prepared by Maria Santos. Review reference 0ECCDDDBCEBEF9FF2: any change to the figures after sign-off voids this approval.